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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on

- I. the proposal from the Commission of the European Communities to the Council for a directive on aid to the shipbuilding industry,
- II. the Memorandum from the Commission of the European Communities on procedures for action in the shipbuilding industry

(Doc. 252/73)

Rapporteur: Mr Lothar KRALL

PE 36.445/fin.

By letter of 29 November, 1973, the President of the Council of the European Communities optionally consulted the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on aid to the shipbuilding industry.

On 10 December, 1973, the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs.

The Committee on Economic and Monetary Affairs appointed Mr L. Krall rapporteur on 20 December, 1973.

It considered the proposal at its meetings of 28/29 January, 21/22 February, 7/8 March, 28/29 March and 18/19 April, 1974.

At its meeting of 18/19 April, 1974, the committee unanimously adopted the motion for a resolution and the explanatory statement with one abstention.

The following were present: Mr Lange, chairman; Mr Notenboom, vice-chairman; Mr Krall, rapporteur; Mr Artzinger, Mr Burgbacher, Mr Flämig (deputizing for Mr Van der Hek), Mr Harmegnies, Mr Hougardy, Mr Kater, Mr Leonardi, Mr Radoux (deputizing for Mr Wohlfart), Mr Schachtschabel, Mr Schmidt and Mr Scholten.

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A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on aid to the shipbuilding industry and on the memorandum from the Commission to the Council on procedures for action in the shipbuilding industry.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council,¹
 - having been optionally consulted by the Council (Doc. 252/73),
 - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 68/74),
1. Welcomes the Commission's efforts to contribute to a more effective structuring of the shipbuilding industry with a view to greater competitiveness at world level;
 2. Takes the view that, as regards the industrial aspects of the shipbuilding policy, the Commission should lay stress on the establishment of the soundest possible basis for decisions regarding investments in the shipbuilding industry and, if need be, help to provide the necessary credit;
 3. Welcomes that part of the proposal dealing with industrial policy as an initial practical step towards a true industrial policy at Community level; expects the Community institutions to work towards a uniform shipbuilding policy;
 4. Requests the Commission to draw up a timetable for the abolition of the various aids, including investment aid, and to insist, in the 1975 OECD negotiations, on the complete abolition at world level of all existing aid constituting a source of distortion to competition and to ensure, by agreements with Japan and other countries, that no world surplus production capacity arises;

¹ OJ No. C 114, 27 December 1973, p. 23 and COM(73) 1788 final

5. Considers, therefore, that the proposal for a directive may remain in force only until 31 December 1975;
6. Requests the Commission to submit without delay a proposal for a structural directive on the shipbuilding sector;
7. Instructs its Committee on Economic and Monetary Affairs to request details on the subject from the Commission;
8. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities and to the governments and Parliaments of Member States.

EXPLANATORY STATEMENTI. Introduction

1. The second Council directive on aid to the shipbuilding industry (of 20 July 1972) was originally to remain in force until 31 December 1973. The Commission's proposal for a new 'third' directive was not submitted to the Council until 5 November 1973 and the European Parliament was requested to deliver an opinion on 29 November 1973. In view of this tight schedule, the Council decided to extend the validity of the second directive until 30 June 1974.

2. Europe's share in launchings fell from 52% in 1960 to 26% in 1972, i.e. was halved. Over the same period the Japanese share rose from 20% to 48%, i.e. more than doubled (according to Lloyd's Register of Shipping).

Europe's shipyard capacity was 6.8 million gross tons in 1971/72 and will probably reach 9.2 million in 1975, while Japanese shipyard capacities are likely to rise from 12.2 in 1971/72 to 18.3 million gross tons in 1975 (according to the OECD).

These analyses suggest that there is a danger of a substantial world production overcapacity in the shipbuilding industry towards the end of the decade. However, no information is as yet available on how these forecasts will be affected by the long-term effects of recent developments - the oil crisis and the possible reopening of the Suez Canal.

3. It considers that if the Community's policy in shipbuilding remains concentrated, inter alia, on harmonizing functional aid schemes, the expected overcapacity at the end of the 1970s as a result of Japan's greater competitiveness will mainly affect the workload of European shipyards. This would have adverse economic and social effects on the Member States. That is why the Commission considers that Europe's shipbuilding investment differential vis à vis Japan must be eliminated as rapidly as possible.

According to the proposal, the best way to achieve this aim is by a policy of restructuring and investment coordinated at Community level. The Commission proposes a programme aimed at speeding up and intensifying the measures to be taken by individual ship-building enterprises in the Community in order to improve their competitiveness on world markets.

4. It is satisfactory to note that the Commission is now proposing a policy which should enable the structure of Community shipbuilding to be improved. Yet the fact remains that hitherto it has not proved possible to harmonize the various aid schemes for this industry in the different Member States.

The Committee on Economic and Monetary Affairs takes the view that the desire to eliminate national aid which distorts competition does not find adequate expression in the Commission's proposal in its present form. One of the most substantial parts of the proposed industrial policy is the acceptance of an investment aid policy which differs both in scope and method from Member State to Member State.

The problem of harmonization grew more complex after the enlargement of the Community; now the threat of overcapacity makes it even more urgent for the Member States to agree to harmonize the type and extent of aids to shipbuilding and to draw up a timetable for their elimination.

II. Relations with third countries

5. Under the arrangements agreed within the OECD, direct aids should be completely abolished by the end of 1975. The directive proposed by the Commission, valid for four years, does not, therefore, fix a ceiling for direct aid in 1976 and 1977. The proposed ceilings, 5% in 1974 and 4% in 1975, do not, however, suggest that the EEC Member States intend to observe the OECD agreement.

6. The risk of overcapacity in shipbuilding heightens the need for the Community to call for the total elimination of the various production and investment aid schemes in the coming OECD negotiations. Neither Japan nor the Community will benefit if the shipbuilding industry is expanded too much at present.

7. One reason for the success of the Japanese shipbuilding policy is Japan's coherent national shipping policy. European shipping companies are unlikely to welcome a Community shipping policy. Yet the employment situation in the shipbuilding sector may force the Community to implement a shipping policy if the progress of the negotiations in the OECD does not appear satisfactory for Europe. The Commission should discuss the content of a possible European shipping policy before the OECD negotiations begin in order to strengthen the international negotiating position as much as possible.

III. Coordination of Community policies

8. The aim of the Community's industrial, regional and social policy is to bring the maximum benefit to the peoples of the Member States.

The shipbuilding policy is the first practical attempt to create a genuine industrial policy; in this sector it is becoming clear that the aims and methods of industrial, regional and social policy must be harmonized.

9. The Commission's proposal does not state how much the Community should contribute to the financing of the industrial policy in this sector. It merely says that national investment aid could be supplemented by aid from the Regional Fund, the Social Fund and the European Investment Bank.

We could of course approve the idea that some Community aid should be given within the financial framework already marked out for this purpose . -

The problem would not be so great if the various policies could be clearly distinguished from each other. However, this cannot and should not be done and the committee regrets that, on the basis provided, it cannot perceive the precise rules governing their interaction.

10. The committee has given some thought to the question of when aid should be granted from the point of view of regional policy and when from the point of view of industrial policy.

The Commission is asked to consider this problem, paying particular attention to those cases in which the aims of regional policy might conflict with those of industrial policy.

IV. The industrial policy aspect

11. In its proposals the Commission states that in order to ensure the Community's independence in sea transport, it is both reasonable and essential to attempt to keep production at a level compatible with its economic potential and sea transport requirements.

The oil crisis demonstrates the importance of this aim. That does not mean, however, that every Community shipyard can become competitive, nor need it mean that Community shipyards should be competitive for all types of ship.

The Committee on Economic and Monetary Affairs considered the Commission's proposal for a directive in great detail since it regards it as a first practical step towards a genuine industrial policy.

12. The Commission gives only general information on the criteria for accepting investment aid. More specific rules would appear necessary.

They could be based on analyses showing why some European shipyards are competitive and others are not. The Commission has probably analysed the differences between European and Japanese shipyards and between individual European shipyards; however, the figures it published mainly deal with the development of supply and demand.

Perhaps the proposals may be regarded as conclusions drawn by the Commission from these unpublished analyses; but if the Community wishes to introduce an active shipbuilding policy and requires the support of Member States and the taxpayer, it must publish more precise analyses outlining why most European shipyards are not more competitive.

13. The European shipbuilding problem cannot be solved without Community action. The Community thus has an opportunity to prove that it is able to create a genuine industrial policy.

14. Unfortunately the Commission has not exploited this opportunity to the full. Both objectives and methods are formulated in very vague terms. It does not seem feasible to make European shipyards competitive for all types of ship within four years. The proposal does not specify which types of ship require most attention or what investment funds are required; moreover, the Commission gives only very general criteria for assessing the various capital projects.

That is most surprising seeing that these investments are to be made over the next four years; the Commission should aim to provide shipbuilders with exact criteria and rules as soon as possible.

15. Since this proposal is the first step towards a genuine industrial policy, the vaguely formulated aims and various national measures give cause for great concern, for they could mean that the industrial policy will misfire from the outset.

The committee points to the danger that the desire for an active industrial policy may divert attention from the need to abolish the continuing inequalities in conditions of competition in the shipbuilding industry in the different Member States.

It is, of course, very difficult to implement Community investment aid provisions, especially in a sector as important as shipbuilding. The

committee agrees that this is hardly feasible at the present time, but wishes to make it very clear that the long-term aim must be:

1. abolition of aids at international level, and
2. granting of investment aid in the EEC Member States,- insofar as international conditions of competition still make such aid necessary after 1975 - on the basis of Community rules containing common provisions on when, how and to what extent investment aid should be granted in the shipbuilding sector. The aid should mainly take the form of credit (if necessary at low interest rates) since for industrial policy reasons it is not advisable to support investments which the investors themselves do not consider profitable.

16. The Commission should, therefore, focus its efforts on other parts of the proposed industrial policy in shipbuilding. It must set more specific deadlines for the publication of market and production capacity analyses, research and development programmes, etc. in order to provide shipbuilders with an optimum basis for their investment decisions. At the same time the analyses must be formulated in such a way as to be of practical use to the individual undertakings.

V. The competition aspect

17. With its proposal for partial investment guidance the Commission is entering a field which may lead to new forms of distortion of competition.

If this Commission proposal is adopted it might conceivably encourage competition between Member States to ensure themselves the greatest possible share in the future European shipbuilding capacity over the coming years, on the assumption that they will be financed in part by the Community. The very vague terms in which the aims are formulated might have the overall effect of giving shipbuilders in certain countries advantages at the cost of others quite independently of any regional or sectoral aims.

18. The proposal outlines certain steps, if only small and hesitant, towards the gradual reduction of direct aids granted by Member States for the sale of their ships. Yet there is no evidence of any attempt to harmonize the aid schemes, although this would be most desirable since it will obviously take some time for aid schemes to be abolished completely under the OECD Understanding.

The two different ceilings for the two forms of aid - for sales and production - may also allow certain Member States to increase their aid in cases where aid to improve credit conditions has not been fully exhausted; conversely, countries which hitherto concentrated their aid

on improving credit conditions are not entitled simply to increase their aid for ship production.

19. On the principle that equal conditions of competition should be guaranteed, the proposal to grant credit concessions for sales of ships to other Member States instead of only for exports to third countries as before, is to be welcomed. Yet it has several disadvantages. Firstly, a ship owner may buy a ship in another Member State at better credit conditions than at home; secondly, shipbuilders will in future object even more strongly to the reduction of the various aid schemes.

VI. Conclusion

20. The Committee on Economic and Monetary Affairs supports the Commission's efforts to subordinate all the different forms of aid, including investment aid, to common rules. This, and the fact that the Commission proposals have after all succeeded in reducing to some extent the ceiling rates for direct aids for the building and selling of ships, is the main reason why the proposed 'third' directive should enter into force on 1 July 1974 in place of the 'second' directive currently in force.

However, the committee sees a need for more binding Community rules on how and to what extent national investment aid should be granted in the shipbuilding industry. In the light of its discussions with the Commission, the committee expects the latter to formulate as soon as possible a proposal for a structural directive for shipbuilding which obliges Member States to comply with Community rules on investment aid. The committee recommends, therefore, that the proposed 'third' directive valid until the end of 1975 should enter into force on 1 July 1974; by that time the results of the negotiations within the OECD and the international rulings for the period after 1975 will be known.

21. The committee also requests the Commission to attempt during the coming negotiations within the OECD to gain international approval for the gradual abolition of the different forms of aid in the shipbuilding sector, partly in order to create equal conditions of competition on the world market for Community shipbuilding, and partly to prevent international competition on the investment front from creating an even greater surplus production capacity than that clearly to be expected by the late 1970s.